

## Message Text

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ACTION EUR-12

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USIA-15 AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01

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R 131902Z FEB 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7872

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 2670, JANUARY 27, 1976

1. SUMMARY. PAST, PRESENT AND FUTURE STATE OF FRANCE'S  
ECONOMY HAVE BEEN BROUGHT INTO SHARPER FOCUS DURING  
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PAST TWO WEEKS. GOF HAS ADDED TO AVAILABLE PICTURE

OF ECONOMIC PERFORMANCE IN 1975, CLAIMING STRONG RISE IN DEMAND AND OUTPUT DURING FOURTH QUARTER AND BALANCE-OF-PAYMENTS SURPLUS ON CURRENT ACCOUNT FOR THE YEAR. PRIVATE-SECTOR ANALYSTS THUS CONSIDER ECONOMY CURRENTLY TO BE IN PERIOD OF ACCELERATING GROWTH, BUT EXPECT RECOVERY TO LEVEL OFF AFTER MID-YEAR AND RESULT IN OVERALL GROWTH IN REAL OUTPUT OF SOME 3 PERCENT DURING 1976. AS FOR NEXT YEAR, GOF HAS INDICATED THAT CONTINUED FISCAL AUSTERITY WILL BE THE WATCHWORD FOR 1977 BUDGET. END SUMMARY.

2. FOURCADE CLAIMS RECOVERY BEGAN IN CLOSING MONTHS OF 1975 --

CLAIMING "POSITIVE RESULTS" FROM GOF'S ECONOMIC-SUPPORT PROGRAM DURING FIVE MONTHS SINCE IT WAS INAUGURATED LAST SEPTEMBER, FINANCE MINISTER FOURCADE SAID FEBRUARY 7 THAT FRENCH ECONOMY GREW AT MORE THAN 7 PERCENT ANNUAL RATE DURING FOURTH QUARTER 1974. HE ADDED THAT INDUSTRIAL PRODUCTION HAD RESUMED GROWTH AND THAT JOB DEMANDS HAD PEAKED SINCE OCTOBER "AT A LEVEL WHICH CORRESPONDS TO A 4.7 PERCENT RATE OF UNEMPLOYMENT." (FOURCADE'S LATTER REMARK WAS THE FIRST IN RECENT MEMORY BY A GOF OFFICIAL WHICH SPECIFIED AN UNEMPLOYMENT RATE AS PERCENT OF THE LABOR FORCE. HE PRESUMABLY WAS REFERRING TO UNADJUSTED FIGURES AND, IF SO, CORROBORATED THIS EMBASSY'S ESTIMATES NOTED REFTEL.) EARLIER, ON JANUARY 28, FOURCADE TOLD COUNCIL OF MINISTERS THAT GOF'S EFFORTS TO STIMULATE ECONOMY HAD PROMPTED INCREASE IN REAL HOUSEHOLD CONSUMPTION DURING FINAL QUARTER OF 1975, ON THE ORDER OF 7 PERCENT ABOVE LEVEL FOR SAME PERIOD IN 1974. HE SAID FISCAL INCENTIVES HAD BOOSTED BUSINESS EXPENDITURES ON PRODUCTIVE INVESTMENT BY SOME 10 PERCENT OVER INITIAL PROJECTIONS, AND THAT PUBLIC-SECTOR SPENDING ON CAPITAL EQUIPMENT HAD RISEN BY A THIRD OVER THE COURSE OF 1975. (AS NOTED PREVIOUSLY, MOST ANALYSTS BELIEVE REAL INVESTMENT SPENDING DECLINED SOME 8 PERCENT IN 1975 OVERALL.)

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WITH REGARD TO FRANCE'S BALANCE OF PAYMENTS, FINANCE MINISTRY INDICATED FEBRUARY 11 THAT A MARGINAL SURPLUS (SOME 100 MILLION FRANCS) WAS REGISTERED ON CURRENT ACCOUNT DURING 1975.

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FM AMEMBASSY PARIS

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INFO AMEMBASSY BONN

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### 3. GOF DISPUTED ON ECONOMIC PROSPECTS FOR 1976--

GOF'S ECONOMIC PROJECTIONS FOR 1976 HAVE BEEN CHALLENGED BY PRIVATE-SECTOR ECONOMISTS WHOSE ANALYSES HAVE USUALLY PROVED SOUND. ACCORDING TO REPORT BY THE PARIS CHAMBER OF COMMERCE, FRENCH REAL ECONOMIC GROWTH IN 1976 LIKELY TO BE 3.2 PERCENT INSTEAD OF 4.7 PERCENT

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AS FORECAST BY GOF. VALUE-ADDED BY INDUSTRY EXPECTED TO RISE 3.5 PERCENT IN REAL TERMS, CORRESPONDING TO AVERAGE 5.5 PERCENT INCREASE IN QUARTERLY INDEX OF INDUSTRIAL PRODUCTION. ASSUMING A DROP IN SAVINGS RATE FROM 17.3 PERCENT IN 1975 TO 16 PERCENT IN 1976, REAL HOUSEHOLD CONSUMPTION FORECAST TO RISE BY 2.8 PERCENT. (RATE OF INCREASE EXPECTED TO BE STRONGER IN THE FIRST HALF THAN IN THE SECOND, CONCENTRATING ON CONSUMER DURABLES, ALTHOUGH BY LATTER PART OF YEAR OVERALL CONSUMER DEMAND SHOULD BE CLOSE TO PRE-RECESSION LEVELS.) EXPORTS FORECAST TO EXPAND 2 PERCENT IN VOLUME, FAR BELOW OFFICIAL FORECAST OF 6 PERCENT. CONSUMER PRICE INFLATION DURING 1976 EXPECTED TO REACH 10 PERCENT (7.5 PERCENT ACCORDING TO GOF).

CHAMBER REPORT, NOTING LOW RATES OF CAPACITY UTILIZATION AND POOR DEMAND PROSPECTS FORECASTS STAGNATION IN OVERALL INVESTMENT SPENDING DURING 1976. (EXPENDITURES BY PRIVATE SECTOR ON PRODUCTIVE INVESTMENT EXPECTED TO REGISTER REAL DECLINE OF 2 PERCENT, WHILE PUBLIC-SECTOR INVESTMENTS COULD RISE BY 5 PERCENT-- REFLECTING GOF'S RECENT INVESTMENT INCENTIVES FOR ENERGY AND TRANSPORT SECTORS.) OFFICIAL FORECAST FOR OVERALL INVESTMENT SPENDING IN 1976 IS REAL INCREASE OF 5 PERCENT. PROJECTED REAL INCREASE IN IMPORTS IS 7 PERCENT (11.5 PERCENT ACCORDING TO GOF) RESULTING IN EXPECTED 1976 TRADE DEFICIT OF SOME 7 BILLION FRANCS. CHANGES IN STOCKS ARE FORECAST AT PLUS 4.7 BILLION FRANCS, WELL BELOW THE OFFICIAL PROJECTION. UNEMPLOYMENT IS EXPECTED TO AVERAGE 5 PERCENT OF THE LABOR FORCE DURING THE YEAR.

#### 4. FISCAL AUSTERITY TO CONTINUE THROUGH 1977--

NOTWITHSTANDING PRESENT UNCERTAINTY RE FRENCH ECONOMIC PROSPECTS IN 1976, GOF HAS BEGUN OUTLINING AN "AUSTERE" BUDGET FOR CY 1977. DISCUSSION OF GENERAL BUDGETARY OUTLINES FOR NEXT YEAR BEGUN BY COUNCIL OF MINISTERS FEBRUARY 11, REPORTEDLY UNDER PRESUMPTION THAT HIGH LEVELS OF ECONOMIC GROWTH WILL HAVE RESUMED BY THEN -- ALONG WITH INCREASING INFLA-

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TIONARY PRESSURES. THUS DECISION MADE IN PRINCIPLE TO "RETURN TO STRICT BALANCE" IN 1977 AND TO MAINTAIN AT PRESENT LEVELS THE SHARE OF PUBLIC-SECTOR SPENDING

IN GNP. TOGETHER WITH IMPLIED RESTRICTION OF GROWTH  
IN MONEY SUPPLY, BUDGET ENVISAGED FOR 1977 WOULD  
REVERSE FISCAL STIMULUS ADMINISTERED IN 1975 (WITH  
38 BILLION FRANC BUDGETARY DEFICIT) AND CONTINUE  
NOMINALLY-NEUTRAL FISCAL POLICY CURRENTLY IN FORCE.

IN INITIAL STAGES (FEBRUARY AND MARCH), 1977  
BUDGET PREPARATION WILL INVOLVE SUBMISSIONS BY EACH  
CABINET MINISTRY, PROJECTING OPERATIONAL AND SERVICE/  
SUBSIDY EXPENDITURES (WHICH TOGETHER ACCOUNT FOR SOME  
70 PERCENT OF 1976 BUDGET). UNDER FORMULA APPROVED  
BY PRIME MINISTER CHIRAC AND FINANCE MINISTER FOURCADE,  
THESE PROJECTIONS SUBJECT TO STIPULATION THAT (A)  
NUMBER OF NEW EMPLOYEES HIRED BE KEPT AT LEAST  
50 PERCENT BELOW 1976 LEVEL; (B) CREDITS FOR  
PAYROLLS AND EMPLOYEE EXPENSES BE "UP-DATED,"  
PRESUMABLY KEEPING NOMINAL INCREASES FROM 1976  
LEVELS WITHIN RANGE OF PRICE AND STAFF INCREASES;  
AND (C) ALL OTHER CREDITS FOR OPERATIONS AND  
SERVICES BE KEPT CONSTANT IN NOMINAL TERMS.

ABOVE PARAMETERS APPARENTLY FIXED IN REACTION  
TO WHAT GOF SEES AS ALARMING INCREASE IN  
SHARE OF BUDGET GOING TO PERSONNEL COSTS AND  
GOVERNMENT SERVICES IN RECENT YEARS. GIVEN GOF'S  
PROFESSED DESIRE NOT TO RAISE TAXES (REFTEL) ON  
THE ONE HAND, AND TO EXTEND SOCIAL-WELFARE COMMIT-  
MENTS ON THE OTHER, THEME OF FISCAL AUSTERITY IS  
BOUND TO PRODUCE SOME CONVOLUTED ARGUMENTS IN MONTHS  
TO COME.

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R 131902Z FEB 76

FM AMEMBASSY PARIS

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#### 5. PRICE INFLATION DROPS BELOW 10 PERCENT IN 1975--

CONSUMER PRICES ROSE 9.6 PERCENT DURING 1975, COMPARED TO 15.2 PERCENT IN 1974. INSEE (NATIONAL STATISTICS INSTITUTE) RETAIL PRICE INDEX SET AT 158.2 FOR DECEMBER, UP 0.6 PERCENT FROM 157.3 IN NOVEMBER (1970 EQUALS 100). DURING DECEMBER, UNCLASSIFIED

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PRICES FOR SERVICES ROSE ONLY 0.4 PERCENT, THE LOWEST SUCH INCREASE IN OVER TWO YEARS. RETAIL FOOD PRICES AND PRICES FOR MANUFACTURED GOODS BOTH ROSE 0.7 PERCENT DURING DECEMBER. OVER THE COURSE OF 1975, PRICES FOR SERVICES ROSE 11.4 PERCENT; FOOD PRICES ROSE 10.7 PERCENT; AND PRICES FOR MANUFACTURES ROSE 7.8 PERCENT.

#### RETAIL PRICE INFLATION

(QUARTERLY CHANGES IN CONSUMER PRICE INDICES; IN PERCENT AT ANNUAL RATES)

|              |      |      |      |     |
|--------------|------|------|------|-----|
| MANUFACTURES | 10.7 | 6.6  | 5.9  | 7.2 |
| FOOD         | 10.3 | 11.7 | 11.1 | 8.0 |

|          |      |      |      |     |
|----------|------|------|------|-----|
| SERVICES | 11.1 | 11.3 | 13.3 | 8.1 |
| OVERALL  | 10.8 | 9.4  | 9.0  | 8.0 |

WHOLESALE FOOD PRICES INCREASED 2.1 PERCENT DURING DECEMBER, WHILE WHOLESALE INDUSTRIAL PRICES ROSE 0.4 PERCENT.

6. MONEY SUPPLY UP 1.3 PERCENT IN NOVEMBER --

FRENCH MONEY SUPPLY, BROADLY DEFINED (M2), INCREASED 1.3 PERCENT DURING NOVEMBER TO 740.6 BILLION FRANCS. CURRENCY AND DEMAND DEPOSITS (M1) ROSE 1.1 PERCENT TO FF 394.8 BILLION, WHILE NEAR-MONIES INCREASED 1.5 PERCENT TO FF 345.8 BILLION. ON A SEASONALLY-ADJUSTED BASIS, M2 EXPANDED 2.0 PERCENT IN NOVEMBER TO FF 745.8 BILLION; OVER PRECEDING 3 MONTHS M2 HAD INCREASED AT SEASONALLY ADJUSTED ANNUAL RATE OF NEARLY 25 PERCENT, REFLECTING WIDENING BUDGETARY DEFICIT UNDER GOF'S ECONOMIC-SUPPORT PROGRAM LAUNCHED IN SEPTEMBER.

UNADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE SHOWED NET FOREIGN EXCHANGE RESERVES AT FF 47.9 BILLION (UP 5.7 PERCENT FROM OCTOBER); CLAIMS ON PUBLIC SECTOR AT FF 99.8 BILLION (DOWN 1.7 PERCENT); UNCLASSIFIED

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AND CREDITS TO THE ECONOMY OF FF 631.7 BILLION (UP 1.6 PERCENT).

7. GOLD AND FOREIGN EXCHANGE --

FOREIGN-EXCHANGE DEVELOPMENTS OF PAST TWO WEEKS REPORTED SEPTELS (SEE BELOW).

8. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS:

2660 EXCHANGE MARKET DEVELOPMENTS 1/28/76

2814 RECENT FOREIGN-EXCHANGE  
DEVELOPMENTS IN PERSPECTIVE 1/29/76

2958 EXCHANGE MARKET DEVELOPMENTS 1/30/76

3424 EXCHANGE MARKET DEVELOPMENTS 2/4/76

3855 DEBT RE-SCHEDULING FOR NORTH  
KOREA 2/6/76

4067 EXCHANGE MARKET DEVELOPMENTS  
FOLLOWING PESETA DEVALUATION 2/10/76

4L98 EXCHANGE MARKET DEVELOPMENTS 2/11/76

4341 EXCHANGE MARKET DEVELOPMENTS 2/12/76

4533 PARIS PRESS REACTION TO

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EXCHANGE DEVELOPMENTS 2/13/76

4534 FOURCADE STATEMENT ON  
EXCHANGE MARKETS 2/13/76

4535 EXCHANGE MARKET DEVELOP-  
MENTS 2/13/76

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AIRGRAMS

A-55 VALUE OF TRADE IN MANUFAC-  
TURES 1/28/76

A-63 FRENCH FOREIGN EXCHANGE  
HOLDINGS 1/30/76

A-82 FRENCH FOREIGN EXCHANGE  
HOLDINGS 2/6/76

A-91 FRENCH RESERVES IN  
JANUARY 1976 2/11/76

A-93 FRENCH BALANCE OF PAYMENTS  
FOR FIRST HALF 1975 2/13/76  
RUSH

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## Message Attributes

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**Disposition Case Number:** n/a  
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